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S E C R E T SECTION 01 OF 03 MOSCOW 000317

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SUBJECT: THE LUZKHOV DILEMMA

Classified By: Ambassador John R. Beyrle. Reason: 1.4 (b), (d).

11. (C) Summary: Moscow Mayor Yuriy Luzhkov remains a loyal member of United Russia, with a reputation for ensuring that the city has the resources it needs to function smoothly. Questions increasingly arise regarding Luzhkov's connections to the criminal world and the impact of these ties on governance. Luzhkov remains in a solid position due to his value as a consistent deliverer of votes for the ruling party. Unfortunately, the shadowy world of corrupt business practices under Luzhkov continues in Moscow, with corrupt officials requiring bribes from businesses attempting to operate in the city. End Summary.

Overview: The Kremlin's Luzhkov Dilemma

12. (C) Moscow Mayor Yuriy Luzhkov is the embodiment of political dilemma for the Kremlin. A loyal, founding member of United Russia and a trusted deliverer of votes and influence for the ruling party and its leader, Prime Minister Putin, Luzhkov's connections to Moscow's business community -- the big and legitimate as well as the marginal and corrupt -- has enabled him to call for support when he needs it, to deliver votes for United Russia, or to ensure that the city has the resources it needs to function smoothly. Luzhkov's national reputation as the man who governs the ungovernable, who cleans the streets, keeps the Metro running and maintains order in Europe's largest metropolis of almost 11 million people, earns him a certain amount of slack from government and party leaders. He oversaw what even United Russia insiders acknowledge was a dirty, compromised election for the Moscow City Duma in October, and yet received only a slap on the wrist from President Medvedev.

13. (C) Muscovites are increasingly questioning the standard operating procedures of their chief executive, a man who, as of 2007, they no longer directly elect. Luzhkov's connections to the criminal world and the impact that these ties have had on governance and development in Moscow are increasingly a matter of public discussion. Although Luzhkov was successful in winning court-ordered damages from opposition leader Boris Nemtsov for his recent publication "Luzhkov: An Accounting," Nemtsov and his Solidarity-movement allies were heartened by the fact that the judge did not award damages on the basis of the corruption accusations themselves, but rather on a libel technicality.

14. (C) Few believe that Luzhkov will voluntarily relinquish his post prior to 2012, when the Moscow City Duma must submit a list of mayoral candidates to Medvedev for his selection. United Russia will probably call on Luzhkov's political machine and his genuine public support to deliver votes for them in the 2011 State Duma elections, as well as the 2012 Presidential contest. With no apparent successor in line, and with no ambitions beyond remaining mayor, Luzhkov is in a solid position. The evidence of his involvement -- or at

least association -- with corruption remains significant. This cable presents that side of Luzhkov -- one that bears not only on Luzhkov and his handling of local politics, but on Putin and Medvedev as they move toward the 2012 elections.

Background on Moscow's Criminal World

15. (C) The Moscow city government's direct links to criminality have led some to call it "dysfunctional," and to assert that the government operates more as a kleptocracy than a government. Criminal elements enjoy a "krysha" (a term from the criminal/mafia world literally meaning "roof" or protection) that runs through the police, the Federal Security Service (FSB), Ministry of Internal Affairs (MVD), and the prosecutor's office, as well as throughout the Moscow city government bureaucracy. Analysts identify a three-tiered structure in Moscow's criminal world. Luzhkov is at the top. The FSB, MVD, and militia are at the second level. Finally, ordinary criminals and corrupt inspectors are at the lowest level. This is an inefficient system in which criminal groups fill a void in some areas because the city is not providing some services.

16. (C) XXXXXXXXXXXXX, told us that Moscow's ethnic criminal groups do business and give paybacks. It is the federal headquarters of the parties, not the criminal groups, who decide who will participate in politics. XXXXXXXXXXXXX argued that the political parties are the ones with the political clout; therefore, they have some power over these criminal groups.

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Crime groups work with municipal bureaucrats, but at a low level. For example, the Armenians and Georgians were formerly heavily involved in the gambling business before city officials closed the gambling facilities. These ethnic groups needed protection from law enforcement crackdowns, so they sought cooperation with the municipal bureaucrats. In such scenarios, crime groups paid the Moscow police for protection.

Luzhkov's Links to Criminal Figures

17. (S) XXXXXXXXXXXXX XXXXXXXXXXXXX, told us that Luzhkov's wife, Yelena Baturina, definitely has links to the criminal world, and particularly to the Solntsevo criminal group (widely regarded by Russian law enforcement as one of the most powerful organized crime groups in Russia). According to the Internet article, "On the Moscow Group," Vladimir Yevtushenko, the head of the company Sistema, is married to Natalya Yevtushenko, Baturina's sister. Sistema was created with Moscow city government-owned shares, and Sistema initially focused on privatizing the capital's real estate and gas. Sistema's president, Yevgeny Novitsky, controlled the Solntsevo criminal gang. Today, Sistema has spun off into various companies, which implement projects that typically include 50 percent funding from the Moscow city government.

18. (S) According to XXXXXXXXXXXXX, Luzhkov used criminal money to support his rise to power and has been involved with bribes and deals regarding lucrative construction contracts throughout Moscow. XXXXXXXXXXXXX told us that Luzhkov's friends and associates (including recently deceased crime boss Vyacheslav Ivankov and reputedly corrupt Duma Deputy Joseph Kobzon) are "bandits." He told us that he knew this because he formerly had contacts in these criminal groups, but many of his contacts have since been killed. XXXXXXXXXXXXX said that the Moscow government has links to many different criminal groups and it regularly takes cash bribes from businesses. The people under Luzhkov maintain these criminal connections. Recently, ultranationalist LDPR opposition party leader Vladimir Zhirinovskiy strongly criticized Luzhkov and called for him to step down, claiming that Luzhkov's government was the

"most criminal" in Russian history. This remarkable denunciation, carried on state TV flagship Channel One, was widely seen as an indirect Kremlin rebuke of Luzhkov.

¶9. (S) XXXXXXXXXXXX told us everyone knows that Russia's laws do not work. The Moscow system is based on officials making money. The government bureaucrats, FSB, MVD, police, and prosecutor's offices all accept bribes. XXXXXXXXXXXX stated that everything depends on the Kremlin and he thought that Luzhkov, as well as many mayors and governors, pay off key insiders in the Kremlin. XXXXXXXXXXXX argued that the vertical works because people are paying bribes all the way to the top. He told us that people often witness officials going into the Kremlin with large suitcases and bodyguards, and he speculated that the suitcases are full of money. The governors collect money based on bribes, almost resembling a tax system, throughout their regions. XXXXXXXXXXXX described how there are parallel structures in the regions in which people are able to pay their leaders. For instance, the FSB, MVD, and militia all have distinct money collection systems. Further, XXXXXXXXXXXX told us that deputies generally have to buy their seats in the government. They need money to get to the top, but once they are there, their positions become quite lucrative money making opportunities. Bureaucrats in Moscow are notorious for doing all kinds of illegal business to get extra money.

¶10. (S) According to XXXXXXXXXXXX, Luzhkov is following orders from the Kremlin to not go after Moscow's criminal groups. For example, XXXXXXXXXXXX argued that it was only a public relations stunt from Putin to close gambling. In contrast to XXXXXXXXXXXX said he did not see the sense in suitcases of money going into the Kremlin since it would be easier to open a secret account in Cyprus. He speculated that the Moscow police heads have a secret war chest of money. XXXXXXXXXXXX said that this money is likely used to solve problems that the Kremlin decides, such as rigging elections. It can be accessed as a resource for when orders come from above, for example, for bribes or to pay off people when necessary. XXXXXXXXXXXX postulated that the Kremlin might say to a governor that he can rule a certain territory but in exchange he must do what the Kremlin says.

¶11. (C) Notwithstanding Luzhkov's solid position, some of our contacts believe that cracks have appeared in his armor, due

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to his corrupt activities. XXXXXXXXXXXX told us that Luzhkov has many enemies because his wife has the most lucrative business deals in Moscow and many people think Luzhkov has received too much money. The son of the head of the interior police, Vladimir Kolokotsev, told XXXXXXXXXXXX that Kolokotsev's number one job is to get Luzhkov out within a year. Kolokotsev was credited with removing long-standing Governor Yegor Stroyev from Orel. XXXXXXXXXXXX asserted that Luzhkov is "on his way out," although he acknowledged that the Kremlin has not identified a suitable replacement yet. Issues such as corruption and traffic congestion have, to a certain degree, eroded Luzhkov's popularity. Putin, XXXXXXXXXXXX said, will likely pick the quietest and least expected person to replace Luzhkov.

In Moscow, Everyone Needs a "Krysha"

¶12. (C) According to many observers, the lawless criminal climate in Russia makes it difficult for businesses to survive without being defended by some type of protection. XXXXXXXXXXXX explained how bribes work in Moscow: a cafe owner pays the local police chief via cash through a courier. He needs to pay a certain negotiated amount over a certain profit. The high prices of goods in Moscow cover these hidden costs. Sometimes people receive "bad protection" in the sense that the "krysha" extorts an excessive amount of money. As a result, they cannot make enough of a profit to maintain their businesses. If people attempt to forego protection, they will instantly be shut down. For example,

officials from the fire or sanitation service will appear at the business and invent a violation. According to XXXXXXXXXXXX, everyone has bought into the idea of protection in Moscow, so it has become a norm. In general, Muscovites have little freedom to speak out against corrupt activities and are afraid of their leaders.

¶13. (C) XXXXXXXXXXXX explained that Moscow business owners understand that it is best to get protection from the MVD and FSB (rather than organized crime groups) since they not only have more guns, resources, and power than criminal groups, but they are also protected by the law. For this reason, protection from criminal gangs is no longer so high in demand. Police and MVD collect money from small businesses while the FSB collects from big businesses. According to XXXXXXXXXXXX, the FSB "krysha" is allegedly the best protection. He told us that, while the MVD and FSB both have close links to Solntsevo, the FSB is the real "krysha" for Solntsevo. This system is not an incentive for smaller businesses and nobody is immune; even rich people who think they are protected get arrested. According to Transparency International's 2009 survey, bribery costs Russia USD 300 billion a year, or about 18 percent of its gross domestic product. XXXXXXXXXXXX argued that the "krysha" system has led to an erosion of police internal discipline. For instance, young police officers spend their money buying luxury vehicles that a normal worker could never afford.

Comment

¶14. (S) Despite Medvedev's stated anti-corruption campaign, the extent of corruption in Moscow remains pervasive with Mayor Luzhkov at the top of the pyramid. Luzhkov oversees a system in which it appears that almost everyone at every level is involved in some form of corruption or criminal behavior. Putin and Medvedev's dilemma is deciding when Luzhkov becomes a bigger liability than asset. While public sentiment against Luzhkov has grown since the "tainted" elections in October 2009, United Russia's leadership knows that he has been a loyal supporter who can deliver voter support. Ousting Luzhkov before he is ready to go could create major difficulties because he could link others in the government to the corruption. While reforming Luzhkov's questionable activities might seem like the right thing to do, for now keeping him in place, efficiently running the city, is United Russia's best option. Ultimately, the tandem will put Luzhkov out to pasture, like it has done with fellow long-term regional leaders like Sverdlovsk oblast governor Edward Rossel and Tatarstan President Mintimir Shaymiyev.

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